

HART SCHAFFNER & MARX



Fortieth Annual Report
November 30, 1950

EXECUTIVE OFFICES

36 SOUTH FRANKLIN STREET
CHICAGO 6, ILLINOIS



BOARD OF DIRECTORS

EUGENE BASHORE	JOEL SPITZ
MEYER KESTNBAUM	CLAY E. STEELE
JOSEPH HALLE SCHAFFNER	HARRY L. WELLS



OFFICERS

MEYER KESTNBAUM	<i>President</i>
MORRIS GREENBERG	<i>Vice-President</i>
W. RAY MANNING	<i>Vice-President</i>
BERNARD A. RITTERSPORN	<i>Vice-President</i>
CLAY E. STEELE	<i>Secretary and Treasurer</i>
THOMAS E. DAVISON	<i>Comptroller</i>
MORRIS NEUFELD	<i>Assistant Secretary and Assistant Treasurer</i>



TRANSFER AGENTS

The First National Bank of Chicago
Chicago 90, Illinois
Bankers Trust Company
New York 15, N. Y.

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago
Chicago 90, Illinois
The New York Trust Company
New York 15, N. Y.

HART SCHAFFNER & MARX

CHICAGO

NEW YORK

March 1, 1951

To the Stockholders:

Operating results of your company for the fiscal year 1950 are set forth in the annual report submitted herewith. During the first six months our wholesale volume was affected by a cautious attitude on the part of retailers. Developments since the invasion of Korea have produced a marked change in buying psychology both at wholesale and at retail. The improvement during the second six months was sufficient to make the year as a whole slightly better than the previous year.

Consolidated sales increased from under \$58 million in 1949 to \$59,257,388 for the year just ended. Net profits amounted to \$1,647,733 as compared with \$1,568,028 for the previous year. There was also added to surplus the sum of \$230,417 arising from adjustments applicable to prior years.

Additions to properties during the year were slightly in excess of \$2 million. This amount includes the cost of completion of alterations to our factory buildings, the completion of a new Moore store in Oakland, California, and improvements to a number of other subsidiaries. The improvement program on which we embarked a number of years ago is now substantially completed. No unusual expenditures are planned for the current year.

After giving effect to the application of funds to property additions our net working capital is approximately \$700,000 less than at the corresponding date of last year. At the same time, larger inventories and higher unit costs have increased our capital requirements. Although the company has ample lines of bank credit, which it has been using extensively, it is clearly to our advantage to conserve working capital.

We are now entering a period in which the controls and limitations necessary to a defense economy will have an important effect on volume and profits. It is too early to

make an estimate of the manner in which our company will be affected. We are dependent upon foreign markets, principally Australia, for the larger portion of apparel wool used in this country. The price of raw wool has reached an all-time high. When replacement prices are fully reflected in the cost of fabrics and in the price of finished clothing, the competition from synthetic fibers will become an increasingly important factor.

Up to the present time relatively few of the fabrics made partly or wholly of synthetic fibers have won a place in the better grades of clothing but there are a number of developments which offer great promise. Your company is endeavoring to keep in close touch with all of the experiments that are likely to develop fabrics consistent with our standards of quality and performance.

Since the beginning of the current fiscal year, our retail affiliates have shown an encouraging gain in volume. On the basis of Spring orders now on our books we are operating at capacity and it is evident that we may count on an increase in our wholesale volume during the first six months. There is every indication that with the present rate of general business activity the demand for our product during the current year will continue to be good.

Respectfully submitted,

MEYER KESTNBAUM
President

HART SCHAFF
AND SUBSIDIARIES
CONSOLIDATED
As at November 30

Assets

	1950	1949
Current Assets:		
Cash	\$ 1,976,382	\$ 2,827,557
U. S. Government securities, at cost	25,000	75,000
Notes and accounts receivable—		
Trade, less allowances for doubtful balances and discounts	7,058,748	5,507,274
Other	304,596	378,799
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable value for past seasons' goods; retail stores' inventories at cost or market whichever is lower computed by the retail method	19,774,156	15,478,216
Prepaid rentals, insurance, supplies, etc.	585,826	519,498
Total current assets	<u>\$29,724,708</u>	<u>\$24,786,344</u>
Other Assets:		
U. S. Government securities (at cost) and cash deposited in escrow for building purposes and deposits under leases	\$ 95,500	\$ 322,964
Notes of officers and employees for purchase of company's common stock	194,224	206,016
Sundry investments (at cost) and loans, less reserves	330,144	359,141
Cash surrender value of insurance policies on lives of officers of certain subsidiaries	94,768	80,631
	<u>\$ 714,636</u>	<u>\$ 968,752</u>
Properties, at cost:		
Building, shop equipment, furniture and fixtures	\$ 9,386,436	\$ 8,455,652
Less accumulated depreciation	3,663,325	3,342,702
	\$ 5,723,111	\$ 5,112,950
Leaseholds and leasehold improvements less amortization	4,885,782	3,864,007
Land	748,341	728,841
	<u>\$11,357,234</u>	<u>\$ 9,705,798</u>
Goodwill, Trade Names and Trade-Marks, at record value	\$ 1	\$ 1
	<u>\$41,796,579</u>	<u>\$35,460,895</u>

FNER & MARX
RY COMPANIES

BALANCE SHEET

30, 1950 and 1949

Liabilities

	1950	1949
Current Liabilities:		
Notes payable to banks	\$ 5,000,000	\$ 1,000,000
Sinking fund debentures payable May 31, 1951 and 1950 respectively	635,000	485,000
Accounts payable—		
Trade	2,409,259	1,669,431
Other	790,005	679,290
Accrued salaries, wages and rents	1,017,144	780,005
Accrued taxes (other than taxes on income)	365,308	351,261
Provision for federal and state taxes on income	1,280,207	887,703
Total current liabilities	\$11,496,923	\$ 5,852,690
Funded Debt:		
3½% Sinking fund debentures, due June 1, 1963	\$ 7,110,000	\$ 7,600,000
Less—Amount payable in 1951 and 1950 respectively, included in current liabilities	635,000	485,000
	\$ 6,475,000	\$ 7,115,000
Advance by lessor toward leasehold improvements by subsidiary company payable monthly over lease expiring in 1977	249,936	—
	\$ 6,724,936	\$ 7,115,000
Minority Stockholders' Interest	\$ 65,126	\$ 103,042
Reserve for Contingencies	\$ 700,000	\$ 700,000
Capital Stock and Surplus:		
Common stock—authorized and issued—375,000 shares par value \$10.00 each	\$ 3,750,000	\$ 3,750,000
Surplus per accompanying statement—		
Capital surplus	1,649,948	1,628,475
Earned surplus	17,840,873	16,742,915
	\$23,240,821	\$22,121,390
Deduct—Treasury stock—20,367½ shares	431,227	431,227
	\$22,809,594	\$21,690,163
	\$41,796,579	\$35,460,895

See Notes to Financial Statements

HART SCHAFFNER & MARX

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND SURPLUS

For the fiscal years ended November 30, 1950 and 1949

PROFIT AND LOSS

	1950	1949
Net sales and operating revenues	\$59,257,388	\$57,773,088
Dividends from sundry investments, interest and other income	114,123	140,754
Total	\$59,371,511	\$57,913,842
Less:		
Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization)	\$43,173,754	\$42,639,573
Depreciation and amortization	714,530	700,768
Selling, general and administrative expenses	12,181,318	11,718,151
Interest paid	368,122	298,445
Sundry income deductions	13,343	30,323
Minority interest in net profits of subsidiaries	11,102	4,899
Provision for taxes on income—		
Federal normal income tax and surtax	1,217,049	936,511
State income taxes	44,560	17,144
Total	\$57,723,778	\$56,345,814
Profit for the year	\$ 1,647,733	\$ 1,568,028
Adjustments in respect of building and leasehold improvements, depreciation and amortization, federal income taxes, etc., applicable to prior years (Net)	230,417	—
Amount transferred to earned surplus	\$ 1,878,150	\$ 1,568,028

CAPITAL SURPLUS

Balance at end of year (1950 addition of \$21,473 resulting from acquisition of minority interests)	\$ 1,649,948	\$ 1,628,475
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EARNED SURPLUS

Balance at beginning of year	\$16,742,915	\$16,026,005
Amount transferred from consolidated statement of profit and loss	1,878,150	1,568,028
	\$18,621,065	\$17,594,033
Dividends of \$2.20 per share in 1950 and \$2.40 in 1949	780,192	851,118
Balance at end of year	\$17,840,873	\$16,742,915

See Notes to Financial Statements

REPORT OF ACCOUNTANTS

To the Board of Directors of

Hart Schaffner & Marx:

We have examined the consolidated balance sheet of Hart Schaffner & Marx and its subsidiary companies as at November 30, 1950, and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries as at November 30, 1950, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

PRICE, WATERHOUSE & COMPANY

CHICAGO, ILLINOIS

January 19, 1951

NOTES TO FINANCIAL STATEMENTS

Under the provision of the debenture issue, \$14,372,309 of the total consolidated earned surplus at November 30, 1950, is restricted as to payment of dividends.

The unpaid cost with respect to past service benefits under the retirement annuity plan for employees established in 1946 amounted to approximately \$608,000 at November 30, 1950.

As at November 30, 1950, the Company and its subsidiaries occupied properties under sixty-three lease agreements with terms expiring from one to forty-three years after that date, and requiring a minimum rental payment of approximately \$1,375,000 for 1951. Certain of the leases provide for the payment of taxes by the lessees and additional rental based upon a percentage of sales in excess of stipulated minimums.

FIVE YEAR SUMMARY

	1950	1949	1948	1947	1946
Net Sales and Operating Revenue	\$59,257,388	\$57,773,088	\$63,037,888	\$56,527,917	\$45,808,460
Federal Income Taxes	1,217,049	975,298	2,025,253	2,307,804	2,235,562
Net Earnings After Federal Income Taxes Per Share	1,647,733 4.65	1,638,746 4.62	2,927,852 8.26	3,284,384 9.26	3,460,365 9.54
Dividends Paid in Cash Per Share	780,192 2.20	851,118 2.40	851,118 2.40	855,678 2.40	644,518 1.80
Earnings Retained in the Business	867,541	787,628	2,076,734	2,428,706	2,815,847
Property Additions*	2,098,111	2,419,324	3,476,655	3,203,618	1,632,412
Current Assets	29,724,708	24,786,344	28,033,290	22,121,816	20,179,895
Current Liabilities	11,496,923	5,852,690	10,088,636	9,090,219	6,416,958
Net Working Capital	18,227,785	‡18,933,654	†17,944,654	13,031,597	13,762,937
Fixed Assets—Less Depreciation and Amortization	11,357,234	10,032,562	8,385,328	5,547,903	2,697,118
Net Worth Per Share	23,509,594 66.29	22,620,580 63.79	21,832,952 61.57	19,756,218 55.71	17,635,064 48.63

*Retail store leasehold improvements and equipment—Real Estate—Factory Building and manufacturing equipment.

†In 1948 the company issued \$6,000,000 of 3½% sinking fund debentures, the proceeds from which (less \$400,000 payable in 1949 and included in current liabilities of 1948) were added to working capital.

‡During 1949 the company issued an additional \$2,000,000 of 3½% sinking fund debentures, the proceeds from which (less \$485,000 payable in 1950 which is included in current liabilities of 1949) were added to working capital.

